CHAPTER 6

Competition, Competitors, Principles, Tools, and Techniques in Evaluating Business Organizations.

Learning Objectives

1. Discuss how competition happens;
2. Explain the meaning of competitors;
3. Identify and explain the different principles, tools, and techniques in creating a business; and
4. Differentiate SWOT analysis and Porter’s Five Forces analysis

COMPETITION

Competition is a rivalry in which every seller tries to get what other sellers at the same time like sales, profit, and market share by offering the best practicable combination of price, quality and service.

A *competitor*, on the other hand, is any person or entity which is a rival of another. It is a company in the same industry or a similar industry which offers a similar product or service.

Economic competition takes place in markets or meeting grounds of intending suppliers and buyers.

Typically, a few sellers compete to attract favorable offers from prospective buyers. Similarly, intending buyers compete to obtain good offers from suppliers. By that, the buyer and seller exchange property rights as a good, service, or asset.

Sellers tend to cut prices to attract buyers, and buyers reveal their preferences by raising their offers to out-compete other buyers.

Such profit-loss signals coordinate millions of sellers and buyers in the complex, evolving modern economy. Price competition, on the other hand, informs millions of independent people in millions of markets, coordinating them effectively, as if by “an invisible hand”, as Adam Smith, the father of economics, once put it.

- Suppliers also engage in non-price competition. They try to improve their products to gain a competitive advantage over their rivals.
- Another tool of competition is process innovation to lower costs, which allows producers to undercut competitors on price.
- A third instrument is to out-compete one’s rivals in advertising to bring one’s wares to buyers’ attention. Suppliers also compete by offering warranties and after sales services.

ADVANTAGES OF COMPETITION:

1 Competition makes your customer service better

- Having ample time to evaluate and appreciate every customer
- Make customer fall in love with you and treat them right
- Helps in competition along, and customers will have a recall about your business.

2 Competition fosters innovation

- Innovation is important to you and your company but when your business is number one or the only one, innovation tends to be ignored.

3 Competition helps identify your strengths and weaknesses.

- Competition helps you to know your strengths and weaknesses.
- Helps you narrow your focus and concentrate on what you are really good at.

4 Competition is good for consumers.

- Competition is good for the consumers
- Consumers get the opportunity to pick and choose who gets their money, time, and attention.

5 Competition reminds you to focus on your key customers.

- Key customers are the reason why there is more cash inflow.
- By focusing on them, you also come up with ways to serve them better.

6 Competition provides the opportunity to serve.

- Having a task to always serve various customers.
- Competition makes it mandatory to keep serving and seek new ways to serve your customers better.

7 Competition makes way for creative thinking.

- Competition mandate and allows you to put on your thinking cap for better ways to add value.
- Creative thinking forms the bedrock of any success-minded brand.

8 Competition helps identify potential threats to your business.

- Competition will enable you to learn from other competitors.
- You will be able to decipher what plans and strategies or even products would be detrimental to your business.

9 Competition helps identify your strengths and weaknesses.

- ✓ Competition will enable you to study your strengths and weaknesses.
- ✓ Knowing your strengths and weaknesses will help you become better and drive you harder to achieve more.

Competition stops complacency. **10**

- ✓ Competition pushes you to be out of your comfort zone and helps you quest to serve better.
- ✓ Helps you to strive to beat the records of your competitors.

CUSTOMERS

A Customer is an individual or business that purchases the goods or services produced by a business. Public-facing business aims to attract customers, because they create the demand for goods and services.

Many companies closely monitor the relationships they have with customers, through asking for feedback and to know their likes or should any improvements be made.

Customer is the end consumer of a product while consumer, on the other hand, is the end user. These distinguishes true customers from resellers andvendors, who usually make purchases to sell later.

IMPORTANCE OF KNOWING THE CUSTOMERS

Customers are often grouped according to their demographics. Their age, race, sex, ethnicity, income level and geographic location all go into a customer's demographic profile. This information will help businesses build up a picture of the "ideal customer" or "customer persona". Likely, companies will approach the demographics targeting to cultivate a public sales and creating new base of customers for further expansion.

SUPPLIERS AND SUBSTITUTES

Suppliers are the entities who supply goods and services. They are essential to almost every businesses. As a crucial role in a business, suppliers can also be important sources of information, helping you evaluate the potential of new products, track competitors' actions, and identify promising opportunities. *Vendors* can also turn into partners, helping you cut costs, fund new marketing and improve product design.

Substitutes are products that can be sued instead of another. For example, if the price of the gasoline increases liquefied petroleum gas or LPG can be a substitute because it cost less.

Principle,Tools, and Techniques in Evaluating Business Organizations

SWOT Analysis

- ✓SWOT is the acronym for Strengths, Weaknesses, Opportunities, and Threats.
- ✓Is a tool for business analysis in an organization to get through greater heights.
- ✓Credited by Albert Humphrey who led the Stanford Research Institute.
- ✓External information about opportunities and threats may be obtained from a variety of sources, including customers, government reports, professional journals, suppliers, bankers and etc.
- ✓Firms and companies look for information` in variety of array like newspaper clippings, internet research, and analyses of relevant domestic and global trends in order to know the global strengths and weaknesses.

Checklist for Analyzing Organizational Strengths and Weaknesses.

(Source: Management , Seventh Edition)

1. Strengths

Positive characteristics and qualities that the organization can exploit to achieve its strategic performance goals.

2. Weaknesses

These are the internal characteristics that might inhibit the organization’s performance and the very qualities that the firm restrict to reach their objective.

3. Opportunities

Characteristics of the external environment that have the potential to help the organizations achieve or exceed its strategic goals. They are the avenues for improvement and success which are present in the business environment.

4. Threats

Characteristics of the external environment that may prevent the organization from achieving its strategic goals.

Steps in Creating a SWOT Analysis

Step 1

Determine the objective.

Decide on a business organization, key project, or strategy to analyze and place it at the top of the page.

Step 2

Create a grid

Draw a large square and then divide it into four smaller squares.

Step 3

Label each box

Write the word “Strengths” inside the top left box, “Weaknesses” inside the top right box, “Opportunities” within the bottom left box, and “Threats” inside the bottom right box. These are the titles, so they should distinguish from the rest of the text using either color of font size.

Step 4

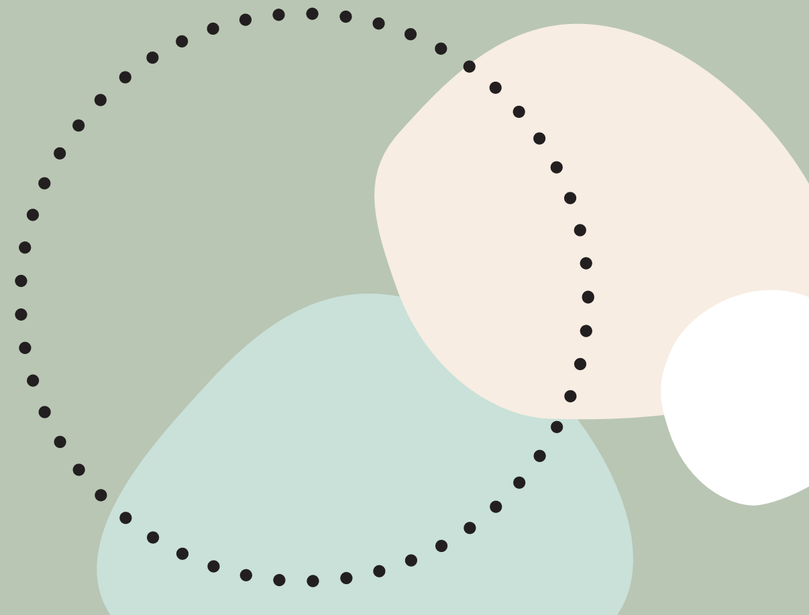
Add strengths, weaknesses, opportunities, and threats.

Add factors that affect the business organization to the applicable boxes. Components of a SWOT analysis may be qualitative and anecdotal as well as quantitative and empirical in nature. Factors are typically listed in a bullet form.

Step 5

Draw conclusions

Analyze the finished SWOT diagram. Be sure to note if the positive outcomes outweigh the negative. If they do, it may be a good decisions to carry out the objectives. If they do not, adjustments to be made, or else the plan should be abandoned.



Poster’s Five Forces of Competitive Analysis

Porter’s five forces of competitive analysis is another tool that uses five forces to determine the intensity of competition in an industry and its profitability level.

Michael E. Porter from Harvard University studied number of business organizations and proposed that business-level strategies are a result of five competitive company’s environment.

The Five Competitive Forces

According to Daft (2005), the five competitive forces of competitive analysis are the following:

1. Potential new entrants

Capital requirements and economies of scale are examples of two potential barriers to entry that can keep out new competitors.

Threat of a new entrants is high when

a. Low amount of capital is required to enter a market;
b. Existing companies can do little to retaliate:
c. Existing firms do not possess patents;
d. There is no government regulation; and
e. customer switching are low.

2. Bargaining power of buyers

Informed customers become empowered customers. The internet provides access to a wide array of information about products, services, and competitors, thereby greatly increasing the bargaining power of end consumers.

Buyers exert strong bargaining power when:

a. Buying in large quantities or control many access points to the final customers:
b. Only few buyers exist;
c. Switching costs to other suppliers are low;
d. There are many substitutes;
e. Buyers are price sensitive

3. Bargaining power of suppliers

The concentration of supplier and the availability of substitute suppliers are significant factors in determining supplier power.

Suppliers have strong bargaining power when:

a. There are few suppliers but many buyers
b. Few substitutes of raw material cost
c. Suppliers hold scarce resources.
d. Cost of switching raw materials is especially high.

4. Threats of substitute products

The power of alternatives and substitutes for a company's product may be affected by changes in cost or in trends such as increased health consciousness that will deflect buyer loyalty

5. Rivalry among competitors

The rivalry among competitors is influenced by the preeding four forces, as well as by cost and product differentiation.

Rivalry among competitors is intense when

a. There are many competitors,
b. Exit barriers are high,
c. Industry growth is slow or negative,
d. Products are nit differentiated and can be easily substituted, and
e. Competitors are of equal size.

Steps used in Porter's Five Forces Framework

Following are the steps used in applying fives frameworks analysis (JurEvicius 2013).

Gather the information on each of the five forces

- The managers are expected to gather all necessary information about their industry.
- Check all the information against each of the factors.

Step 1

Analyze the results and display them on a diagram.

- The information gathered should be analyze and determine how each factor is affecting an industry.
- Five forces affect different industries differently so do not use the same results of analysis for even similar industries.

Step 2

Formulate strategies based on the conclusions.

- The managers then formulate the firm's strategies using the results of the analysis.
- Instances like hard to achieve economies of scale in the market, company should pursue cost leadership strategy. If the current growth is slow and if the market is saturated, product development should be used.

Step 3

thank you!